



Annex 13

Guidance Note on capacity requirements re. financial mobilization as incubator

Capacity requirements at strategic partner level in the area of financial mobilization, including innovative and blended finance:

1. Financial Structuring and Minimum Concessionality Analysis: Strategic partners must possess or sub contract the technical capacity to structure financial transactions. This also includes ability to minimize subsidies for private actors and avoid market distortions. Instrument fluency will also be required for non-traditional instruments such as debt, guarantees, equity, and insurance, and understanding of how they alter risk-return profiles. Structuring these deals requires specialized legal and financial knowledge that is often absent in traditional civil society organisations and must be built or sub-contracted. In instances where critical intervention elements are subcontracted, the SPA partner is required to evidence the capacity to structure the subcontracting arrangement and maintain robust supervision of the agent entity. This includes a demonstrated justification of the cost-effectiveness of outsourcing versus in-house implementation. Although capacity building is permissible during the SPA3 cycle, the partner must possess a proven foundational competence in the sector, supported by a definitive timeline and pathway for resolving outstanding technical shortfalls.

2. Commercial Risk and Due Diligence: Strategic partners must have or acquire the ability to assess commercial viability when working with blended finance. Unlike grant evaluations, this requires performing rigorous ex-ante due diligence on business models, corporate structures, and financial health. For credit provision, this means having the capacity to assess the portfolio health, efficiency, and governance of retail financial institutions. In contexts with weak regulatory capacity, the need to undertake integrity and in anti-money laundering (AML) checks is paramount. Strategic partners must be able to verify beneficial ownership to ensure funds are not used for tax evasion or illicit flows. This also includes assessments of the creditworthiness of potential investment counterparties, which is often difficult in emerging markets due to a lack of data.

3. Specialized Equity Management: Conducting equity investments requires a distinct skillset from lending, necessitating active ownership and often a long-term engagement horizon. Strategic partners acting as equity investors must possess the capacity for in-depth governance and board oversight to influence investees from within. Furthermore, strategic partners must be adept at valuation to manage financial exposure and capable of designing clear exit strategies that secure financial sustainability without compromising the original social mission when ownership eventually transfers.



4. *Microfinance and Client-Centric Expertise.* For micro-credit specifically, Strategic partners must possess client-centric expertise to tailor products to the complex financial realities of the poor. This involves rigorous market analysis to distinguish between the poor, who can productively utilize loans, and the those that can't, who instead require safety nets rather than debt, thereby avoiding debt traps. Strategic partners are also encouraged to move beyond supply-driven credit models to offer diverse services like savings and insurance, while strictly enforcing consumer protection measures—such as transparent pricing—to prevent predatory lending and aggressive recovery practices.

5. *Impact Measurement and Monitoring.* Rigorous impact measurement and monitoring requires strategic partners to establish robust data systems grounded in clear theories of change. This entails not only tracking standard key performance indicators for financial and social outcomes, such as job creation and gender inclusion, but also conducting advanced attribution analysis. Specifically, strategic partners must be skilled in proving *additionality* to demonstrate that humanitarian and development outcomes are a direct result of their intervention and would not have occurred through market forces alone.

6. *Risk Transfer, Risk Layering and Disaster Risk Financing.* To engage effectively in disaster risk financing, risk layering, and risk transfer mechanisms, non-governmental organisations must possess the capacity to navigate beyond transactional financial structuring to address underlying systemic vulnerabilities. Strategic partners must demonstrate the ability to critically assess the local political economy, recognising that the efficacy of financial instruments is frequently constrained by weak regulatory frameworks, poor contract enforcement, and a deficit of bankable investments, rather than merely a global financing gap. Competency in this domain requires designing risk-layered approaches that avoid the moral hazard of privatising profits while socialising losses. Instead, organisations must ensure that the mobilisation of private risk capital alongside public funding delivers sustainable, structural change that fundamentally enhances the adaptive capacity and economic opportunities of the poorest populations. Furthermore, strategic engagement requires a robust understanding of how instruments such as insurance (incl. parametric), sovereign risk pools, or contingency financing complement existing grants and concessional funding. Partners must be capable of integrating these financial tools with comprehensive contingency planning and operational systems, ensuring they improve response timing and manage fiscal exposure without entrenching market distortions. Where technical or financial modelling functions are subcontracted, partners must retain sufficient in-house expertise to rigorously supervise design choices and evaluate distributional impacts. This oversight is essential to safeguard development integrity, ensuring that financial mechanisms prioritise long-term system sustainability and poverty reduction over narrow commercial returns.